

Message Text

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PAGE 01 BEIRUT 07700 291211 Z

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ACTION NEA-12

INFO OCT-01 ADP-00 AF-10 CIAE-00 DODE-00 PM-07 H-02 INR-10

L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-12

EB-11 COME-00 TRSE-00 OMB-01 OPIC-12 AID-20 RSR-01

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R 291035 Z JUN 73

FM AMEMBASSY BEIRUT

TO SECSTATE WASHDC 2947

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E. O. 11652: N/ A

TAGS: EFIN, LE

SUBJECT: AMERICAN EXPRESS PROPOSAL TO ESTABLISH A MERCHANT
BANKING INSTITUTION FOR THE MIDDLE EAST IN BEIRUT

REF: BEIRUT 7566

SUMMARY: ON A CONFIDENTIAL BASIS, WE HAVE BEEN INFORMED
THAT AMEXCO IS ABOUT TO ESTABLISH A MERCHANT BANKING
INSTITUTION FOR THE MIDDLE EAST IN BEIRUT, STARTING
RATHER MODESTLY WITH OPENING A FINANCIAL INSTITUTION
HERE CAPITALIZED AT \$3 MILLION. THE HEAD OF THIS OPERA-
TION HAS ALREADY MOVED TO BEIRUT. AS OF POSSIBLE
ANCILLARY INTEREST, THE RATIONALE USED BY AMEXCO IN
CHOOSING BEIRUT AS THE FOCUS OF ITS PLANNED OPERATION
IS OUTLINED. END SUMMARY

1. A REPRESENTATIVE OF THE AMERICAN EXPRESS INTERNA-
TIONAL BANKING CORPORATION (AEIBC) HAS INFORMED US ON
A CONFIDENTIAL BASIS OF THE INTENTION OF HIS COMPANY
TO ESTABLISH IN BEIRUT A MERCHANT BANKING INSTITUTION
FOR THE MIDDLE EAST. THIS REPRESENTATIVE HAS ALREADY
MOVED TO BEIRUT AND IS NOW IN THE PROCESS OF PUTTING
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PAGE 02 BEIRUT 07700 291211 Z

THE PROJECT INTO OPERATION. INITIALLY, A FINANCE COMPANY WILL BE OPENED IN BEIRUT THAT WILL BE WHOLLY-OWNED EXCEPT FOR QUALIFYING SHARES. THE ANTICIPATED CAPITALIZATION WILL BE \$3 MILLION.

2. THE GOALS OF THE INSTITUTION ARE TO RECEIVE FUNDS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS TO EFFECT MEDIUM- TERM PROJECT LOANS IN THE MIDDLE EAST AREA, TO PROVIDE INVESTMENT OUTLETS FOR MIDDLE EASTERN FUNDS (I. E., BANKING, INVESTMENT, UNDERWRITING, PRIVATE PLACEMENTS, PROJECT FINANCING, LEASING, REAL ESTATE ADVISORY SERVICES, PORTFOLIO MANAGEMENT) TO BE CHanneled THROUGH AMEXCO'S VARIOUS DIVISIONS.

3. IT IS OF INTEREST TO NOTE THAT, IN SELECTING BEIRUT AS THE REGIONAL FOCUS FOR THE PLANNED OPERATION, THE FOLLOWING RATIONALE WAS USED (QUOTED FROM A PAPER LEFT, AGAIN ON A CONFIDENTIAL BASIS, WITH THE EMBASSY):

A. WHILE BEIRUT IS NOT THE (UNDERLINED) FINANCIAL CENTER IN THE MIDDLE EAST, IT IS THE ONLY COUNTRY IN THE AREA WHICH HAS APPROXIMATELY 75 BANKS, NO EXCHANGE RESTRICTIONS AND THE NECESSARY COMMUNICATIONS INDISPENSABLE FOR INTERNATIONAL OPERATIONS, AS WELL AS DEMOCRATIC AND STABLE INSTITUTIONS (DESPITE CONSIDERABLE EXTERNAL PRESSURE). IT COULD AND SHOULD BE THE REGIONAL HEADQUARTERS FOR EXTENSIVE TRAVEL AND DIRECT CONTACTS THROUGHOUT THE AREA.

B. ALMOST ALL BEIRUT BANKS ARE FOCUSED ON INTERNATIONAL BUSINESS. THIS INCLUDES SERVICES FOR THE MILLION LEBANESE LIVING ABROAD (CHIEFLY ELSEWHERE IN THE MIDDLE EAST, IN AFRICA AND IN LATIN AMERICA). DUE TO THIS COSMOPOLITANISM, OPPORTUNITIES FOR INTERNATIONAL STAFFING AND RELATIONSHIPS ARE QUITE GOOD.

C. THE LEBANESE BANKS SHARED ON JANUARY 1973 THE EQUIVALENT OF ABOUT \$2 BILLION IN TOTAL DEPOSITS, OF WHICH FOREIGN ASSETS REPRESENTED \$1.23 BILLION OR SOME ONE PERCENT OF ESTIMATED EURODOLLAR DEPOSITS. FOREIGN AND JOINTLY- OWNED BANKS ACCOUNT FOR ABOUT 80 PERCENT OF LIMITED OFFICIAL USE

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PAGE 03 BEIRUT 07700 291211 Z

TOTAL DEPOSITS. THERE IS ROOM FOR SOME EXPANSION SINCE THE PROPOSED REFORM OF THE LEBANESE RESERVE REQUIREMENTS ON FOREIGN CURRENCY DEPOSITS (IF ADOPTED) WOULD PROMOTE THE INFLOW OF FUNDS INTO THE COUNTRY.

COMMENT: THE ESTABLISHMENT OF A MERCHANT BANKING INSTITUTION IN BEIRUT WOULD BE A WELCOMED MOVE AS FAR

AS THE LEBANESE GOVERNMENT IS CONCERNED, NOT ONLY IN THE
CONTEXT OF PROVIDING A MORALE BOOST AT A DIFFICULT TIME,
BUT ALSO IN PROVIDING A FURTHER CANDIDATE TO THE MEDIUM-
TERM CREDIT FIELD, WHICH IS SO UNDERDEVELOPED IN THIS
COUNTRY. HOUGHTON

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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 29 JUN 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973BEIRUT07700
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: BEIRUT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730633/aaaajwwn.tel
Line Count: 125
Locator: TEXT ON-LINE
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 73 BEIRUT 7566
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 04 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04-Jan-2002 by cunninfx>; APPROVED <16-Jan-2002 by morefirh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> jms 980310
Subject: AMERICAN EXPRESS PROPOSAL TO ESTABLISH A MERCHANT BANKING INSTITUTION FOR THE MIDDLE EAST IN BEIRUT
TAGS: EFIN, LE
To: NEA
SECSTATE WASHDC
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005